

STUDY OF BUDGET AND APPROPRIATIONS PROCESSES OF THE STATE OF MONTANA

A Report Prepared for
A Working Group of the Legislative Finance Committee

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2009 BIENNIUM INTERIM PROJECT

Background

The statutes governing the state budget and the budgeting processes of state government were initially enacted over 30 years ago. Since then, the statutory budget process has in some cases been amended piecemeal, and many budget processes have been woven into the complex budget process by tradition, need, and systems design, not necessarily with a comprehensive and coherent budget model in mind.

Given the requirement of the legislature to ensure a legally sound, workable, transparent, and efficient state budget process, and the statutory role of the Legislative Finance Committee (LFC) to oversee the state fiscal process and efficiency, the LFC, at the June 2007 meeting, decided to conduct an interim study of the current statutes and processes in the interest of seeking a bipartisan plan for improvements to the budget and appropriations process.

A working group was charged with the coordination and oversight of this interim project and this report is intended to provide the initial discussion framework for that working group as well as an opportunity to prioritize the specific process areas for review. The working group has been tasked with the preparation of a project recommendation to the LFC as a whole at the October 2007 meeting for committee consideration.

Project Deliverables

For each specific area or component of the budget and appropriations process that the LFC selects for interim review, the following deliverables will be forthcoming in a separate report:

1. A detailed analysis of the specific issue
2. A detailed critique of why the issue presents concerns as part of the budget and appropriations process
3. A list of options to change or reform this issue that may include statute change, rules changes, committee/subcommittee process, etc.
4. Each option will be categorized to address the following areas:
 - efficiency
 - effectiveness
 - transparency
 - accountability
 - public participation
 - eliminating statutory conflicts

Original LFC Discussion List of Budget and Appropriations Issues

At the June 2007 LFC meeting, the committee reviewed and identified the following original list of concerns and issues with the existing budget and appropriations process:

- Consider options to enhance the “big picture” budget process, including a look at incremental budgeting as the framework for state budgeting, and other alternatives
- Complete an inventory, analysis and make recommendations for changes to state statutes, rules, and procedures to meet the objectives of the existing budget process
- Review the current revenue estimating process for efficiency, accuracy, reliability, and current practices of the estimation of the revenue side of the budget equation (cooperative effort with the Revenue and Transportation Interim Committee)

- Review the current structure for submission and development of budgets, i.e., the Governor's submission of a budget, legislative procedures and practices for developing the process
- Examination of improved ways to budget for statewide present law
- Examination of existing "institutional" budget processes and practices, including consideration of when and with what authority it would be appropriate to deviate from such practices
- Review the accessibility and authority to obtain budget and revenue data
- Consider alternative models for personal services budgeting and how these may be presented in the executive and legislative budgets
- Consider enhancements to data gathering and extraction methods in the state accounting system to provide more of the information necessary for legislative prioritization and budget decision-making
- Legislative authority to oversee and require accountability of the executive once the budget is approved
- Legislative authority to set procedures for the submission of the executive budget, and options to enforce executive compliance
- Review executive authority to call special sessions related to the budget
- Examine adequate ending fund balance reserves, contingency appropriations, and other good budget practices
- Review specific process, such as budgeting for proprietary funds, indirect cost allocation methods, vacancy savings concept, and the allocation of centrally provided services
- Review and consider updating the role of legislative staff in the budget process to maximize legislative confidence in staff for fair and objective delivery of services

Selecting the Specific Issues for Interim Study and Review

To launch this interim study project the LFC, with the prior work and recommendation of the working group, will need to select from the original list above those specific priority issues for study and report during the interim. Selecting the study items will need to be done in a manner that ensures that adequate staff resources will be available to complete the deliverables outlined above.

The working group may want to consider which of these are of the highest priority, and select some of these for recommendation to the Legislative Finance Committee. LFD staff will be available to assist with discussion of these items and to project the total number of issues that will be doable given the constraints of time and staff resources. Once the working group has selected a prioritized list, that list will be submitted to the Legislative Finance Committee as a recommendation for their final decision and assignment to the working group for interim study.

In order to facilitate the study issue selection process, the following "menu" has been devised by LFD staff. These are the budget and appropriations issues that staff have identified and prioritized by category of **critical**, **very important**, and **important**. Under those five items ranked critical by staff, there is a brief justification for that highest ranking. In each category, the issue items are also listed in their respective priority order; from highest to lowest.

Finally, there was an issue addendum submitted by a member of the Legislative Finance Committee. That item appears separately from the staff prioritized menu as it was received after the staff ranking process had been completed.

Staff Prioritized Menu List of Specific Issues/Problems/Concerns

CRITICAL

- 1) Inventory, analysis, and recommendations for changes to state statutes, rules, and procedures to meet the objectives of the budgeting process
 - Staff believes that many of the other items would be addressed through this item, and that examination would be the catalyst for addressing many issues, such as
 - Review of current structure for submission and development of budgets, including Governor's submission, legislative procedures and practices for development

- Accessibility and authority to obtain budget and revenue data

Reasons for critical ranking:

This study issue is the best starting point to analyze and identify opportunities to improve the budget process and for staff to determine ways to provide better information to the legislature. Part of this process should include inconsistencies in the statute related to the budget process as well as “best practices” review from other state and other budget models. Some concerns raised include the lack of long-range considerations in budgeting (10 years out) as well as accountability in terms of the legislature getting what they paid for in the budget.

- 2) Examination of existing institutional budget processes and practices, and when and with what authority it would be appropriate to deviate from such practices – joint subcommittee process, base budget, number and presentation of bills
 - Within this item also includes:
 - Legislative authority to set procedures for the submission of the executive budget, and options to enforce executive compliance
 - Executive authority to call special sessions related to the budget – notice, submission timelines, session planning

Reasons for critical ranking:

This issue can address the constitutional budget authority given to the legislature and see that the process and practices maximize that role and authority. As an “institution” of state government, the budget process is also a public indicator of the efficiency and effectiveness of state government as a whole. Therefore, clarification of budget processes and any process that deviates from historical norms could lead to increased public confidence in the legislature and improve overall effectiveness of the legislature as an institution.

- 3) Legislative oversight authority and budget accountability as part of the biennial budget process

Reasons for critical ranking:

This task brings the legislature full circle from appropriating funds to reviewing the subsequent expenditures in order to determine if legislative intent was met. This issue also reinforces the concept of legislative authority in the budget process with, as a separate branch of government, a stake in the outcome of the budget and the policies driven by the budget. Finally, this also creates a closer link between session issues and interim projects, which may enhance legislative policy consideration in the subsequent sessions.

- 4) Examination of improved ways to budget for Statewide Present Law Adjustments (SWPLA) – more complete and transparent information that better explains SWPLA

Reasons for critical ranking:

The expenditures for SWPLA represent more than 12 percent of the HB 2 budget growth from the base and there is not adequate transparency about how those figures are derived, so the legislature is not able to easily evaluate this portion of the budget. Given the tight timeframe for the subcommittee budget process and transmittal, it would appear that there is a need an improved process or methodology.

- 5) Alternatives for personal services budgeting and how they are presented in the executive and legislative budgets

Reasons for critical ranking:

Personal services expenditures represent a significant percentage of the state budget, including 85 percent of the SWPLA. In addition, with the move to the broadband pay plan, there is more flexibility for state agencies to change position pay levels, which means personal services expenditures will

become less a statewide matter and more an agency level matter. In order to provide an opportunity for more legislative oversight to this significant component of the budget at the agency level, there may be better methods of budgeting and presentation in the process.

VERY IMPORTANT

- 6) Review of current revenue estimating process, and current practices of the estimation for the revenue side of the budget equation (in cooperation with the Revenue and Transportation Interim Committee)
- 7) Examination of adequate ending fund balance reserves, contingency appropriations, and other good budget practices
- 8) Examination of statutory and state special revenue sources was incorporated in this study by the committee. Scope could be either large or small
- 9) Review of specific processes, such as budgeting for proprietary funds, indirect cost allocation methods, vacancy savings concept, allocation of centrally provided services, etc.

IMPORTANT

- 10) Big picture budget process – take a look at incremental budgeting as the framework for budgeting, as well as others
- 11) Data gathering and extraction enhancements to the state accounting system to provide the information necessary for legislative prioritization and budget decision making
- 12) Staff role in budget process that maximizes legislator confidence in fair and objective delivery of services
- 13) Single budget bill vs. multiple budget bills; include recommended process/rules for multiple budget bills
- 14) Options for changing the base to use for the budget starting point (e.g. which year, etc.)
- 15) Review of information, tables, charts, figures included in the budget analysis that are not supported by MBARS, including processes used to generate and insert the information, to determine if these provide information/data pertinent to the legislature and add value to their decision-making on the budget

Legislator Addendum List

- Study concept of using the zero-based budgeting model for one major component of state government each session so that there is a regular rotation and each budget is calculated by the zero-based model on that regular schedule. All other budgets would be built using the base plus model. For example:
 - Session Year One - Education budgets use the zero-based model, all others use the base plus model
 - Session Year Two - Health and Human Services uses the zero-based model, all others use the base plus model
 - Session Year Three - General Government budgets use the zero-based model, all others use the base plus model
 - Session Year Four - Section D budgets use the zero-based model, all others use the base plus model
 - Session Year Five - Section C budgets use the zero-based model, all others use the base plus model

This process could reduce concerns about compounding problems with the SWPLA and other present law adjustments, as the entire budget for each agency would be zero-based on a regular, periodic basis (*could the above schedule be compacted into a shorter rotation timeframe?*).

Working group Decision Point

The working group is tasked with determining which of the above, or other, issues to recommend to the LFC to be included in the interim study? Staff resource allocations will be factored into the recommendations.

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